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Alternatives to Soviet GasOBI ResponseMiddle Eastern Gas

There are vast reserves of natural gas in the Middle East, especially in Iran and Qatar, which could be developed for export.

- Numerous proposals have surfaced recently, all of which are expensive because of transport costs.
- Qatar may export LNG in the 1990s and Iran could pipe gas to Europe by 1990.
- In addition to costs, some Europeans have doubts about political stability in the region and the wisdom of switching from OPEC oil to OPEC gas.

Iran Turkey Pipeline

Iran is again considering exporting gas to Western Europe.

- o Iran has gas reserves equivalent to 65 billion barrels of oil.
- o Iran had earlier planned to export 200,000 b/d oil equivalent annually to Western Europe through a swap agreement with the Soviet Union; the revolutionary regime has since cancelled the deal.
- o Iran has now reached an agreement in principle with Turkey to allow construction of an export pipeline through Turkey:
  - One proposal calls for a liquefaction plant for gas shipment through the Mediterranean.
  - Another proposal calls for a pipeline to Italy.
- o An Italian firm is preparing a preliminary feasibility study of the projects--estimated to cost \$7 to \$10 billion.
- o Both the Italians and the West Germans have indicated an interest in constructing this pipeline.
- o The gas is likely to be costly unless subsidized loans are secured.
- o A gas pipeline must traverse difficult terrain and would take a minimum of 5 years to complete.

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- o A pipeline would pose some security risks by crossing several countries.
- o Some potential European purchasers may be concerned about the wisdom of trading dependence on OPEC oil for dependence on OPEC gas.

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US Role

The US has a number of options to consider to facilitate the development of alternative gas supplies.

- project financing
- encouraging US companies to participate in technology and project development
- play a political role in facilitating agreement between parties, both governmental and commercial.

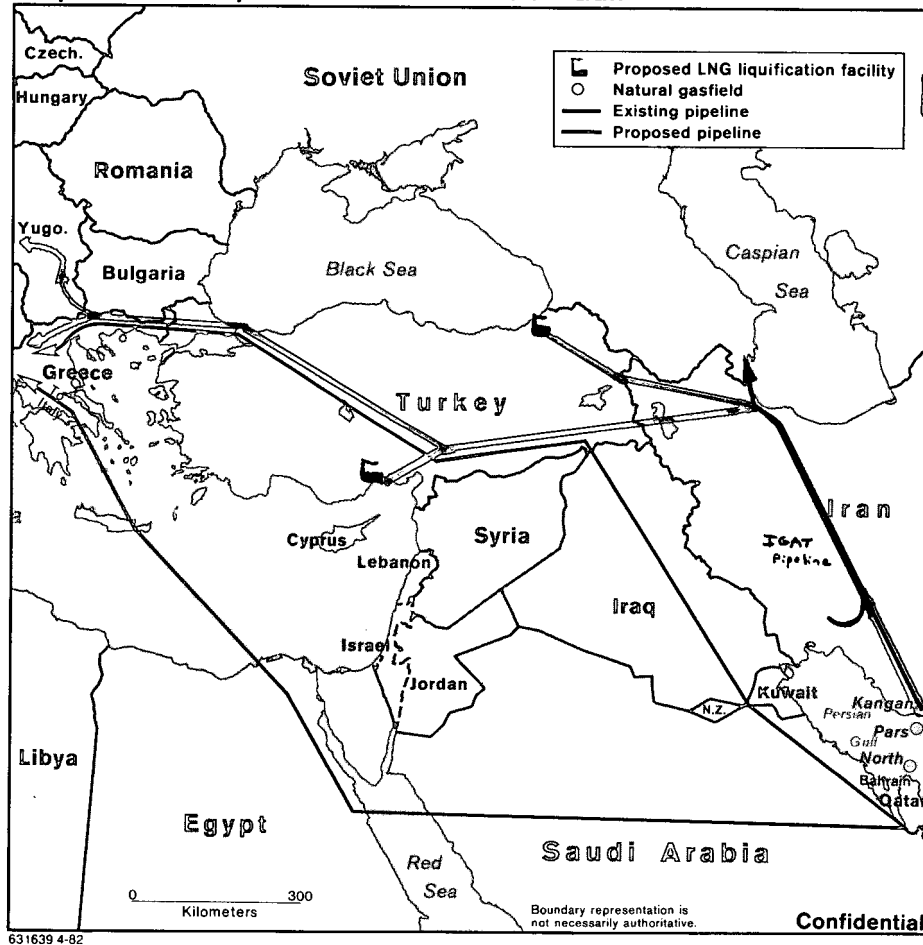
A conspicuous US role in pushing the alternatives could be damaging.

- European gas purchasers would view this as another effort to undermine the Soviet pipeline.
- Norway could view US pressure as a justification for returning to a hawkish pricing role.

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# Proposed Gas Pipelines from the Persian Gulf



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